

August 24, 2009

Elisabeth A. Shumaker  
Clerk of Court

PUBLISH

UNITED STATES COURT OF APPEALS  
TENTH CIRCUIT

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THE SCO GROUP, INC.,

Plaintiff-Appellant,

v.

NOVELL, INC.,

Defendant-Appellee.

No. 08-4217

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APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF UTAH  
(D.C. NO. 2:04-CV-00139-DAK)

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Stuart Singer, Boies, Schiller & Flexner LLP, Fort Lauderdale, Florida (David Boies, Robert Silver, and Edward Normand, Boies Schiller & Flexner LLP, Armonk, New York; Brent O. Hatch, Mark F. James, Hatch, James & Dodge, PC, Salt Lake City, Utah; Devan V. Padmanabhan, Dorsey & Whitney LLP, Minneapolis, Minnesota with him on the briefs) for Plaintiff-Appellant.

Michael Jacobs, Morrison & Foerster LLP, San Francisco, California (George C. Harris, Grant L. Kim, David E. Melaugh, Morrison & Foerster LLP, San Francisco, California; Thomas R. Karrenberg, Heather M. Sneddon, Anderson & Karrenberg, Salt Lake City, Utah with him on the briefs) for Defendant-Appellee.

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Before **LUCERO**, **BALDOCK** and **McCONNELL**, Circuit Judges.

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**McCONNELL**, Circuit Judge.

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This case primarily involves a dispute between SCO and Novell regarding the scope of intellectual property in certain UNIX and UnixWare technology and other rights retained by Novell following the sale of part of its UNIX business to Santa Cruz, a predecessor corporate entity to SCO, in the mid-1990s. Following competing motions for summary judgment, the district court issued a detailed opinion granting summary judgment to Novell on many of the key issues. We affirm the judgment of the district court in part, reverse in part, and remand for trial on the remaining issues.

## **I. Background**

We begin by laying out some of the basic facts underlying Novell’s transfer of certain UNIX-related assets to Santa Cruz, as well as the background to the instant litigation. Other facts will be discussed as the issues require.<sup>1</sup>

### **A. The UNIX Business and the Sale to Santa Cruz**

UNIX is a computer operating system originally developed in the late 1960s at AT&T. By the 1980s, AT&T had developed UNIX System V (“SVRX”); it built a substantial business by licensing UNIX source code to a number of major computer manufacturers, including IBM, Sun, and Hewlett-Packard. These manufacturers, in turn, would use the SVRX source code to develop their own individualized UNIX-derived “flavors” for use on their computer systems.

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<sup>1</sup> The motion of Wayne R. Gray, for leave to file a brief as amicus curiae, is denied.

Licensees could modify the source code and create derivative products mostly for internal use, but agreed to keep the UNIX source code confidential.

In 1993, Novell paid over \$300 million to purchase UNIX System Laboratories, the AT&T spin-off that owned the UNIX copyrights and licenses. Only two years later, however, Novell decided to sell its UNIX business. Although Novell may have initially intended “to sell the complete UNIX business,” both parties agree that Santa Cruz was either unwilling or unable to commit sufficient financial resources to purchase the entire UNIX business outright. App’x 8610; Aplt. Br. 8; Aple. Br. 5. The deal was therefore structured so that Novell would retain a 95% interest in SVRX license royalties, which had totaled \$50 million in 1995.

The transfer of Unix-related rights occurred pursuant to three documents: an asset purchase agreement (“APA”) executed on September 19, 1995; “Amendment No. 1” signed by the parties at the actual closing on December 6, 1995; and “Amendment No. 2” on October 16, 1996. The APA provided that:

“Buyer will purchase and acquire from Seller on the Closing Date . . . all of Seller’s right, title, and interest in and to the assets and properties of Seller relating to the Business (collectively the “Assets”) identified on Schedule 1.1(a). Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).

Schedule 1.1(a) included within the list of “Assets” transferred, “[a]ll rights and ownership of UNIX and UnixWare.” App’x 313. Section V of the Asset

Schedule, entitled “Intellectual property” provided that Santa Cruz would obtain “[t]rademarks UNIX and UnixWare as and to the extent held by Seller” but did not explicitly mention copyrights. App’x 315. In contrast, Schedule 1.1(b), the list of assets excluded from the deal, did expressly speak to copyrights. Section V—“Intellectual Property”—explained that “*All copyrights* and trademarks, except for the trademarks UNIX and UnixWare,” as well as “[a]ll [p]atents,” were excluded from the deal. App’x 318 (emphasis added).

Less than a year after the deal closed, the parties agreed to Amendment No. 2, which amended the APA’s treatment of copyrights. Amendment No. 2 provided that:

With respect to Schedule 1.1(b) of the Agreement, titled ‘Excluded Assets’, Section V, Subsection A shall be revised to read:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.

App’x 374.

The APA separately purported to give Novell certain residual control over “SVRX Licenses.” Section 4.16(b) of the agreement provided that:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under or assign any SVRX License without the prior written consent of Seller. In addition, at Seller’s sole discretion and direction, Buyer shall amend, supplement, modify or waive any

rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller.

The parties differ markedly in their characterization of the rights transferred to Santa Cruz and the value of the deal. According to SCO, Santa Cruz purchased the bulk of the business, including the core UNIX copyrights, for \$250 million, but Novell retained a 95% interest in royalties as a “financing device.” According to Novell, SCO’s \$250 million figure improperly inflates the value of the deal, by accounting not only for the value of assets actually transferred by SCO to Novell, but including the share of the SVRX royalty stream *retained* by Novell. *See* Aple. Br. 5 n1. Novell calculates that it received only about \$50 million in stock, as well as a promised share of the “UnixWare” revenue stream exceeding certain targets. Novell contends that it retained ownership of the UNIX copyrights, extending only an implied license to Santa Cruz to use the copyrights, for instance, to develop and distribute an improved version of Novell’s “UnixWare” product.

In support of its understanding of the transaction, SCO relies heavily on extrinsic evidence of the parties’ intent at the time of the APA—including testimony from *Novell’s* leadership at the time—suggesting that the parties’ intent was to transfer the copyrights. For instance, Robert Frankenberg, then President and CEO of Novell, testified that it was his “initial intent,” his “intent at the time when the APA was signed,” and his “intent when that transaction closed” that

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